# RATING REPORT

# Quaid-e-Azam Thermal Power (Private) Limited

**REPORT DATE:**
Aug 23, 2023

**RATING ANALYSTS:**

Tayyaba Ijaz, CFA
tayyaba.ijaz@vis.com.pk

| RATING DETAILS | | | | |
|---|---|---|---|---|
| | Latest Rating | | Previous Rating | |
| **Rating Category** | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| **Entity** | AA | A-1 | AA | A-1 |
| **Rating Date** | *23 Aug'23* | | *30 Jun'22* | |
| **Rating Outlook** | Stable | | Stable | |
| **Rating Action** | Reaffirmed | | Reaffirmed | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2015** | **External auditors:** PWC A.F. Ferguson & Co |
| **Private Limited Company** | **Chairman:** Mr. Zaheer Ahmed Ghanghro<br>**CEO:** Syed Wasim Ur Rehman |
| **Key Shareholders (with stake 5% or more):**<br>• Government of Punjab – 99.99% | |

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria: Industrial Corporates (May 2023)**
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
**VIS Rating scale (2023)**
https://docs.vis.com.pk/docs/VISRatingScales.pdf

# Quaid-e-Azam Thermal Power (Pvt.) Limited

## OVERVIEW OF THE INSTITUTION

*Quaid-e-Azam Thermal Power (Private) Limited (QATPL) was incorporated on March 25, 2015 under the Companies' Ordinance, 1984 (now Companies Act, 2017). The registered office of the Company is situated at 7-C1, Gulberg III, Lahore.*

**Profile of CEO**

*Syed Wasim Ur Rehman has around three decades of professional experience. He is an electrical engineer by profession and also a business administration graduate. Previously he has served on senior positions in various*

**Profile of Chairman:**

*Mr. Zaheer Ahmed is an Engineer by profession. He did his engineering in Electrical & IT and Master's in Business Administration from LUMS, Pakistan. He has been in Power Sector for the more than three decades. Currently he is attached with Halmore Power Generation Company Limited "HPGCL" Pakistan in the capacity of CEO. He has also served in WAPDA, in OMS (Pvt.) Ltd, as Managing Director & in Chiniot Power (Pvt.) Ltd as Project Director.*

## RATING RATIONALE

Quaid-e-Azam Thermal Power (Private) Limited (QATPL) is wholly owned by the Government of Punjab (GoPb). The company owns and operates re-liquefied Natural Gas (RLNG) based Combined Cycle Gas Turbine (CCGT) power plant of 1,163 MW (net) generating capacity at Bhikki, District Sheikhupura, Punjab. The ratings draw comfort from the presence of a clause in the Power Purchase Agreement (PPA) whereby QATPL will continue to receive capacity payments during the period of non-supply of gas. In addition, the "Suspension" clause in the PPA allows the company to suspend its plant operations if the receivable amount from Central Power Purchase Agency (Guarantee) Limited (CPPA) at any point in time remains outstanding for 60 days or more while the Company will continue to receive capacity payments during the suspension period. This provision further protects the Company from the circular debt risk. Commercial Operation Date (COD) of combined cycle plant was achieved on May 20, 2018. QATPL has appointed the joint venture of M/s Harbin Electric International Company Limited (HEI), China and M/s Habib Rafiq (Pvt.) Limited, (HR) Pakistan, as the Operation and Maintenance (O&M) contractor of the power plant (excluding gas turbines) for a period of 12 years. The company has entered into LTSA with General Electric International Company, Inc. (GE), for twelve years for operation and maintenance of gas turbines. NEPRA determined the final tariff at COD for the Company on Jan 3, 2023. The ratings incorporate adequate corporate governance framework underpinned by effective board oversight.

**Key Rating Drivers**

**Power Purchase Agreement (PPA):** A 30-year PPA was signed between QATPL and Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) on July22, 2016, on behalf of ex-WAPDA Distribution Companies ("the Power Purchaser") for the sale of its entire power generation. Obligations of CPPA-G are guaranteed by the Government of Pakistan (GoP) under the Implementation Agreement. The PPA covers risk associated with the event of gas non-supply. As per the event, any interruption of supply of gas from and after the Commercial Operations Date (COD) resulting in company's inability to declare full available capacity will be treated as "gas non-supply event" and the Company shall continue to receive capacity payments during the non-supply period. Also, QATPL has the right to suspend the supply of available capacity to CPPA after notice if the receivable amount remains outstanding for 60 days or more.

**Gas Supply Agreement (GSA):** The Company has entered into a Gas Supply Agreement (GSA) with Sui Northern Gas Pipeline Limited (SNGPL) on 22 July 2016 for 15 years from Commercial Operations Date (COD). Under this contract, SNGPL will arrange RLNG at the plant site. RLNG fuel price shall be determined by Oil & Gas Regulatory Authority (OGRA) on a periodical basis and any change in the fuel price is a pass-through item under the PPA. Prior to expiry of the GSA, SNGPL shall enter into necessary arrangements to ensure the term is extended for a further period of 15 years for which QATPL shall have the first right of refusal for any gas available in the system.

**Determination of COD Tariff:** NEPRA had determined reference generation tariff for the plant on April 14, 2016. In September 2018, the Company filed petition for modification of its generation tariff which was admitted by NEPRA and a modified reference tariff was determined on Jan 27, 2020. In FY21, NEPRA approved an interim order and granted a provisional indexation adjustments on the reference tariff components of capacity and variable O&M. The indexation allowed to the Company was purely on provisional basis till finalization of COD tariff. Accordingly, the Company had recorded Rs. 28.4b as interim relief liability on account of this provisional indexation adjustment. However, after the announcement of COD tariff subsequent to the year end on Jan 3, 2023, indexation impact on account of revised reference tariff components has been actualized and recorded as revenue in the financial statements. Hence, the interim relief liability recorded since COD i.e., May 20, 2018 till Jun 30, 2022 has been reversed.

**Revenues and Profitability:** Pakistan's power generation capacity mix is highly concentrated in thermal technology with a share of around 61% in FY22. The transition towards nuclear and renewables has been slow. Over a period of four years i.e., from FY18 to FY22, the generation mix has changed from 5% Renewables and 4.1% Nuclear vis-à-vis 8.3% and 6.5% in Nuclear and Renewables, respectively. Hydel generation share in generation mix has remained largely unchanged over this period at 24.5%. Albeit QATPL has remained high in merit order list amongst power projects operating on RLNG, the annual load dispatch factor of the plant has been reported relatively lower primarily as a result of new capacity additions in nuclear and coal power projects coming online in the past two years under China-Pakistan Economic Corridor (CPEC) initiatives. In Aug'23, sister concern of QATPL, Punjab Thermal (Pvt.) Limited was also connected to the grid after commencement of its single cycle operations. Besides this, reduction in demand was witnessed in line with economic slowdown induced by various internal and external factors which resulted in further decline in energy delivered in HY23.

| | FY21 | FY22 | *HY'22* | HY'23 |
|---|---|---|---|---|
| **Average annual load dispatch factor** | 77 % | 68% | *72%* | 41% |
| **Energy Dispatched (GWh)** | 7,119 | 6,091 | *3,361* | 1,897 |

Net sales were recorded sizably higher at Rs. 144.3b (FY21: Rs. 78.9b) primarily on account of increase in energy purchase price (EPP) component. The EPP component also included actualized value of revised tariff components following the determination of COD tariff. Gross margins have remained largely intact at 17.5% (FY21: 17.4%) owing to sustained proportion of capacity purchase price (CPP) component. Interest income on delayed payments from CPPA-G (FY22: Rs. 4.7b; FY21: Rs. 2.7b) has supported the bottomline on a timeline basis. Finance cost of Rs. 7.7b (FY21: Rs. 6.7b) was incurred in FY22. Based on corporate tax, tax expense for FY22 amounted to Rs. 250.5m (FY21: Rs. 341.9b), which includes normal tax @ 29% and super tax @ 4%. Income tax on few items of other income is not recoverable from CPPA-G under the relevant clause of PPA. The Company reported higher net profits amounting to Rs. 12.5b (FY21: Rs. 9.2b) despite increase in other expenses and finance cost while net margins were recorded lower at 8.7% (FY21: 11.6%).

During 9M'FY23, net revenues clocked in at Rs. 89.3b (9MFY22: Rs. 82.6b) while gross margins were recorded notably higher at 18.8% (9M'FY22: 13.3%) on account of increase in proportion of CPP component i.e., 20% in 9M'FY23 vis-à-vis 13% in SPLY. Other expenses augmented to Rs. 4.8b (9M'FY22: Rs. 911.0m) largely owing to markup on delayed payment to SNGPL and O&M contractor of Rs. 3.2b (9M'FY22: Rs. 640.7m). Other income, largely including markup on delayed payments from CPPA-G, increased to Rs. 8.6b (9M'FY22: 3.6b) largely on account of hike in markup rates. Similarly, finance cost also increase to Rs. 8.6b (9M'FY22: Rs. 5.5b). Accounting for taxation, bottomline was recorded considerably higher at Rs. 12.0b (9M'FY22: Rs. 8.0b) with net margins of 13.3% (9M'FY22: 9.6%).

**Adequate Liquidity Profile:** Liquidity profile of the Company is supported by healthy cash flows generation in relation to its financial obligations. The Company generated Rs. 13.7b (FY22: Rs. 20.2b; FY21: 8.4b) in funds from operations during 9M'FY23. Annualized FFO to total debt and long-term debt have remained adequate at 0.33x (FY22: 0.34x; FY21: 0.13x) and 0.46x (FY22: 0.47x; FY21: 0.13x), respectively. Debt service coverage ratio has also improved to 2.18x (FY22: 1.63x; FY21: 1.25x).

Trade receivables from CPPA-G stood lower at Rs. 58.8b (FY22: Rs. 68.5b; FY21: Rs. 57.3b) as of Mar'23. These receivables are interest free and secured by guarantee from the GoP under the IA. However, a penal markup at the rate of 3 months KIBOR plus 2% is charged, in case the amount is not paid within due date. As per the management, CPPA on average clears the outstanding bills in 50 to 60 days as compared to the regulatory timeframe of 25 days, thereby QATPL earns an interest income on the overdue amount. These receivables also include delayed payment interest and receivable on disputed invoices from CPPA-G amounting to Rs. 15.8b (FY22: Rs. 9.5b; FY21: Rs. 5.4b; FY20) and Rs. 5.1b (FY22: Rs. 4.2b; FY21: Rs. 3.4b), respectively. Advances, deposits, prepayments and other receivables stood included amount recoverable from CPPA-G against various pass through items, receivable from SNGPL and, from CPPA-G against ToP invoices. Cash and bank balances stood at Rs. 13.8b (FY22: Rs. 14.2b; FY21: Rs. 9.4b). These include deposit in LC margin offshore account with NBP and collection accounts totaling at Rs. 4.6b (FY22: Rs. 5.1b) and Rs. 8.5b (FY22: Rs. 8.6b), respectively. These carry markup rates ranging from 12.2% to 15.0% (FY22: 5.5% to 12.25%) per annum.

During the previous years, SNGPL raised certain invoices to the Company aggregating Rs. 12.9b (the 'ToP' invoices) for several months from May 2017 to June 2022. QATPL disputed these invoices based on various factual, legal and contractual grounds. Meanwhile, SNGPL withdrew the sum of Rs. 3.26b from Escrow account of the company held as Gas Security Deposit under GSA maintained with the National Bank of Pakistan (NBP) in June'18. These invoices were disputed by QATPL, inter alia, on the grounds that (a) take-or-pay, in terms of the GSA, is applicable only on firm gas allocation pertaining to each month which was missing in 2017, (b) the firm gas allocation deliveries plan was not finalized in the year 2018, and (c) the gas not taken by QATPL was diverted and consumed in the same tariff sector in all these years. Pursuant to the dispute resolution mechanism provided for in the GSA, an Expert was appointed who rendered his recommendations in Sep'19 that ToP invoices are valid, legal and recoverable from the Company. Upon disagreement with the Expert recommendations, QATPL initiated arbitration before London Court of International Arbitration (LCIA) in terms of the dispute resolution mechanism provided for in the GSA. Both parties submitted their closing submissions before LCIA in Aug'21. On Aug 2, 2022, LCIA announced an Award against the Company in respect of the ToP case. The LCIA found the Company liable to pay SNGPL ToP invoices along with markup on delayed payments as defined in GSA. The Company was also determined liable to pay arbitration and legal costs to SNGPL. QATPL has challenged the award in London High Court under section 68 of the Arbitration Act, 1996 of UK and it seeks setting aside/remission of the Award. The expected date of hearing is Dec'23.

SNGPL has filed an application for recognition and enforcement of the Award under section 6 of the Recognition and Enforcement (Arbitration Agreements and Foreign Arbitral Awards) Act 2011 of Pakistan, in the Honorable Lahore High Court (LHC). Meanwhile, the management intend to pursue this case in all other available legal forums including LHC and the management believes that it is possible that the decision will be reversed in favor of the Company.

The Deputy Commissioner Inland Revenue rejected the claim of input tax on construction and installation services and created an additional sales tax demand of Rs. 345.1m for the periods of February' 2017, April-June, 2017. The Company has filed an appeal before ATIR which is pending adjudication. Further, the Additional Commissioner (CPRA) issued an order under relevant section of Punjab Sales Tax on Service Act, 2012 (PSTS Act), creating a demand of Rs. 4.9b. The Company preferred an appeal before the Commissioner (Appeals) PRA, who issued order rejecting the appeal. Therefore, being aggrieved by the order, QATPL filed an appeal before ATIR (PRA) on Nov 26, 2019, which was decided against the Company. Being aggrieved by the order, the Company preferred an appeal before Lahore High Court which is pending adjudication. The Company has not recorded any liability in respect of these demands on basis of legal and factual grounds.

**Strengthening Capitalization Profile:** Equity base of QATPL augmented to Rs. 67.2b (FY22: Rs. 55.3b; FY21: Rs. 42.7b) due to internal capital generation during 9M'FY23. Total liabilities have decreased to Rs. 96.6b (FY22: Rs. 115.4b; FY21: Rs. 103.1b) mainly on account of reduction in trade creditors which included Rs. 10.7b (FY22: Rs. 33.0b) payable to SNGPL for purchase of RLNG. The Company is liable to pay markup at 1 month KIBOR plus 2% on delayed payments. Amount payable to suppliers remained unchanged at Rs. 5.9b, entailing payable to EPC contractor against offshore and onshore contracts. These pertained to liquidated damages charged to EPC contractor amounting Rs. USD 53.93m due to delays in completion of construction of the plant. The EPC contractor has offered an arrangement whereby security has been offered equal to the amount of such damages till the matter is amicable resolved or settled through arbitration. The amount of LC opened by the Company has been reduced by an equivalent amount. However, since the recoverability of these damages is not virtually certain, therefore, pending the resolution of the matter, the management has not recorded a receivable from EPC contractor.

The company has obtained syndicated term finance facility (STFF) under Common Terms and Accounts Agreement (CTAA) from the consortium of banks. Principal is repayable in semi-annual installments and carries markup at rate of 3 months KIBOR plus 3%, payable semiannually in arrears; the loan facility will be completely retired by end-December 31, 2027. Outstanding amount of this long-term facility stood lower at Rs. 40.0b (FY22: Rs. 42.9b; FY21: Rs. 51.2b) as of Mar'23. In addition, QATPL has availed syndicated working capital facilities of Rs. 15.7b (FY22: Rs. 15.7b; FY21: Rs. 11.7b) from various banks, carrying markup at rate of 3 months KIBOR plus 1.5%. Accrued markup amounted to Rs. 2.7b (FY22: Rs. 525.6m; FY21: Rs. 2.9b) at end-Mar'23. Gearing has decreased steadily on a timeline basis to 0.83x (FY22: 1.06x; FY21: 1.47x) as a result of growth in equity base and repayments of long-term financing.

**Corporate Governance:** Presently, the Board of Directors (BoD) at QATPL consists of thirteen members including Chairman, CEO, eight independent members and three ex-officio members. The Ex-Officio members (nominee personnel of GoPb) included Secretary Energy, Chairman Planning & Development and Secretary Finance. The financial statements of the company for FY22 were audited by EY Ford Rhodes, Chartered Accountants, who have been reappointed for FY23. The composition of BoD is tabulated below:

| Directors | Status |
|---|---|
| Mr. Zaheer Ahmed Ghangro | Chairman |
| Mr. Syed Wasim Ur Rehman | Chief Executive Officer |

| | |
|---|---|
| Mr. Naeem Rauf (Secretary Energy) | Ex-Officio Director |
| Mr. Ali Sarfraz Hussain (Chairman P&D, GoPb) | Ex-Officio Director |
| Mr. Mujahid Sherdil (Secretary Finance) | Ex-Officio Director |
| Mr. Abdul Basit | Independent Director |
| Ms. Aasia Saail Khan | Independent Director |
| Mr. Khurram Saleem | Independent Director |
| Mr. Naweed Akhtar Sharif | Independent Director |
| Mr. Tariq Mehmood | Independent Director |
| Mr. Muhammad Ali | Independent Director |
| Mr. Farrukh Ifzal | Independent Director |
| Mr. Waseem Akhtar | Independent Director |

**Environmental, Social and Governance (ESG):** The Company follows its Health, Safety and Environmental policy to provide safe workplace to its employees and minimize the impact of Company's activities on environment. The Company complies with national/provincial environment related requirements e.g., compliance of Revised National Environmental Quality Standards and Punjab Environmental Quality Standards for stack emission, ambient air quality, effluent discharge, noise and soil contamination. Zero effluent discharge policy implemented, all the sanitary & industrial wastewater is treated at plant wastewater treatment plant and then reuse. QATPL plant is certified for ISO 45001 (Occupational Health and Safety Concerns), ISO 14001 (Effective Environmental Management System), ISO 9001 (Quality Management System) and also holds WWF Green Office certification.

**Quaid-e-Azam Thermal Power (Private) Limited (QATPL)** **Annexure I**

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | | |
|---|---|---|---|---|
| **BALANCE SHEET** | **FY20** | **FY21** | **FY22** | **9M'FY23** |
| PP&E | 62,422 | 60,032 | 57,561 | 56,439 |
| Long-Term Advances | 2,696 | 2,939 | 2,939 | 2,939 |
| Long-Term Deposits & Prepayments | 4,669 | 4,669 | 7,691 | 8,641 |
| Stock in Trade | 1,631 | 1,508 | 2,469 | 5,016 |
| Trade Debts | 30,035 | 57,342 | 68,535 | 58,806 |
| Advances, Deposits, Prepayments and Other Receivables | 11,119 | 9,931 | 16,685 | 16,991 |
| Cash & Bank Balance | 10,069 | 9,372 | 14,179 | 13,817 |
| Other Assets | 71 | 8 | 600 | 1,179 |
| Total Assets | **122,713** | **145,801** | **170,659** | **163,829** |
| Trade & Other Payables | 16,543 | 16,068 | 56,323 | 38,306 |
| Accrued Markup | 4,810 | 2,939 | 526 | 2,701 |
| Short-term Borrowings | 11,675 | 11,675 | 15,675 | 15,675 |
| Long-Term Borrowings *(Inc. current maturity)* | 56,120 | 51,212 | 42,883 | 39,889 |
| Total Debt | 67,795 | 62,887 | 58,558 | 55,564 |
| Interim Relief Liability | - | 20,942 | - | - |
| Total Liabilities | **89,150** | **103,072** | **115,406** | **96,601** |
| Paid Up Capital | 21,250 | 21,250 | 21,250 | 21,250 |
| Total Equity | **33,563** | **42,729** | **55,253** | **67,228** |
| | | | | |
| **INCOME STATEMENT** | **FY20** | **FY21** | **FY22** | **9M'FY23** |
| Net Sales | 67,511 | 78,935 | 144,280 | 89,263 |
| Gross Profit | 14,213 | 13,747 | 25,316 | 16,739 |
| Finance Cost | 11,243 | 6,738 | 7,742 | 8,178 |
| Profit Before Tax | 6,006 | 9,512 | 12,776 | 12,107 |
| Profit After Tax | 6,006 | 9,170 | 12,526 | 11,976 |
| FFO | 7,528 | 8,367 | 20,178 | 13,725 |
| | | | | |
| **RATIO ANALYSIS** | **FY20** | **FY21** | **FY22** | **9M'FY23** |
| Gross Margin (%) | 21.1 | 17.4 | 17.5 | 18.8 |
| Net Margin (%) | 8.9 | 11.6 | 8.7 | 13.4 |
| Net Working Capital (Rs. millions) | 12,157 | 17,818 | 23,590 | 32,475 |
| FFO to Long-Term Debt (x) | 0.13 | 0.16 | 0.47 | 0.46 |
| FFO to Total Debt (x) | 0.11 | 0.13 | 0.34 | 0.33* |
| Debt Servicing Coverage Ratio (x) | 1.19 | 1.25 | 1.63 | 2.18* |
| ROAA (%) | 4.8 | 6.8 | 7.9 | 9.5* |
| ROAE (%) | 19.7 | 24.0 | 25.6 | 26.0* |
| Gearing (x) | 2.02 | 1.47 | 1.06 | 0.83 |
| Debt Leverage (x) | 2.66 | 2.41 | 2.09 | 1.44 |
| Current Ratio (x) | 1.30 | 1.30 | 1.30 | 1.51 |
| Inventory + Receivables to Short-term Borrowings (x) | 2.71 | 5.04 | 4.53 | 4.07 |

**Annualized*

| REGULATORY DISCLOSURES | | | | | Annexure II |
|---|---|---|---|---|---|
| **Name of Rated Entity** | Quaid-e-Azam Thermal Power Private Limited | | | | |
| **Sector** | Power | | | | |
| **Type of Relationship** | Solicited | | | | |
| **Purpose of Rating** | Entity Ratings | | | | |
| **Rating History** | **Rating Date** | **Medium to Long Term** | **Short Term** | **Rating Outlook** | **Rating Action** |
| | **RATING TYPE: ENTITY** | | | | |
| | 23/08/2023 | AA | A-1 | Stable | Reaffirmed |
| | 30/06/2022 | AA | A-1 | Stable | Reaffirmed |
| | 24/05/2021 | AA | A-1 | Stable | Reaffirmed |
| | 28/04/2020 | AA | A-1 | Stable | Downgrade |
| | 04/07/2019 | AA | A-1+ | Stable | Reaffirmed |
| | 04/07/2018 | AA | A-1+ | Stable | Reaffirmed |
| | 19/04/2016 | AA | A-1+ | Stable | Initial |
| **Instrument Structure** | N/A | | | | |
| **Statement by the Rating Team** | VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. | | | | |
| **Probability of Default** | VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. | | | | |
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| **Due Diligence Meetings Conducted** | | **Name** | **Designation** | **Date** | |
| | 1. | Mr. Salman Shahid | Deputy CFO | May 29, 2023 | |